

Tapping the Bottom of the Pyramid

**Innovating Business Strategies to Serve
the Next Billion Digital Consumers**

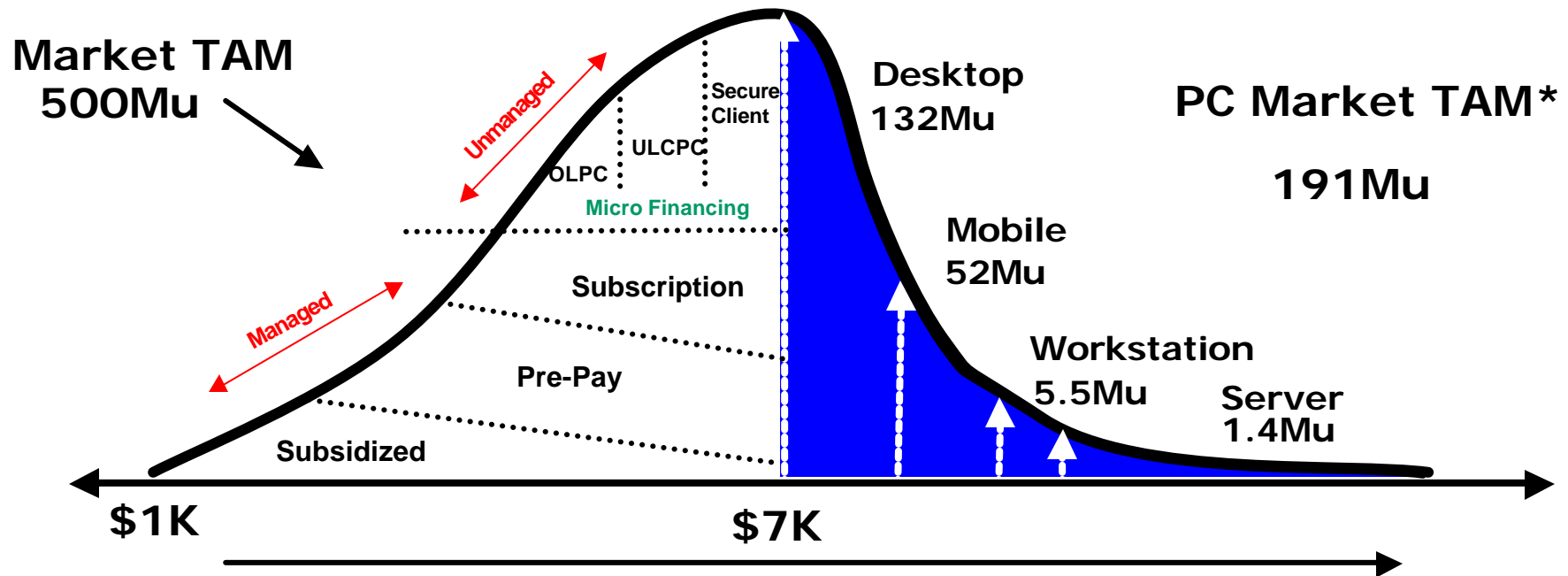
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**February 10, 2006
Rice University**

The Landscape

- **The Opportunity**
 - Being the first to serve the next billion computing consumers
 - Initial experiences yield tremendous brand loyalty
 - Localized offerings improves defensibility
- **The Challenges**
 - Creating alternative business models to meet the billion customers core needs
 - Affordability*
 - Relevance*
 - Usability*
 - Availability*
 - Helping drive industry changes to better support the alternative business models

Global Market Opportunity

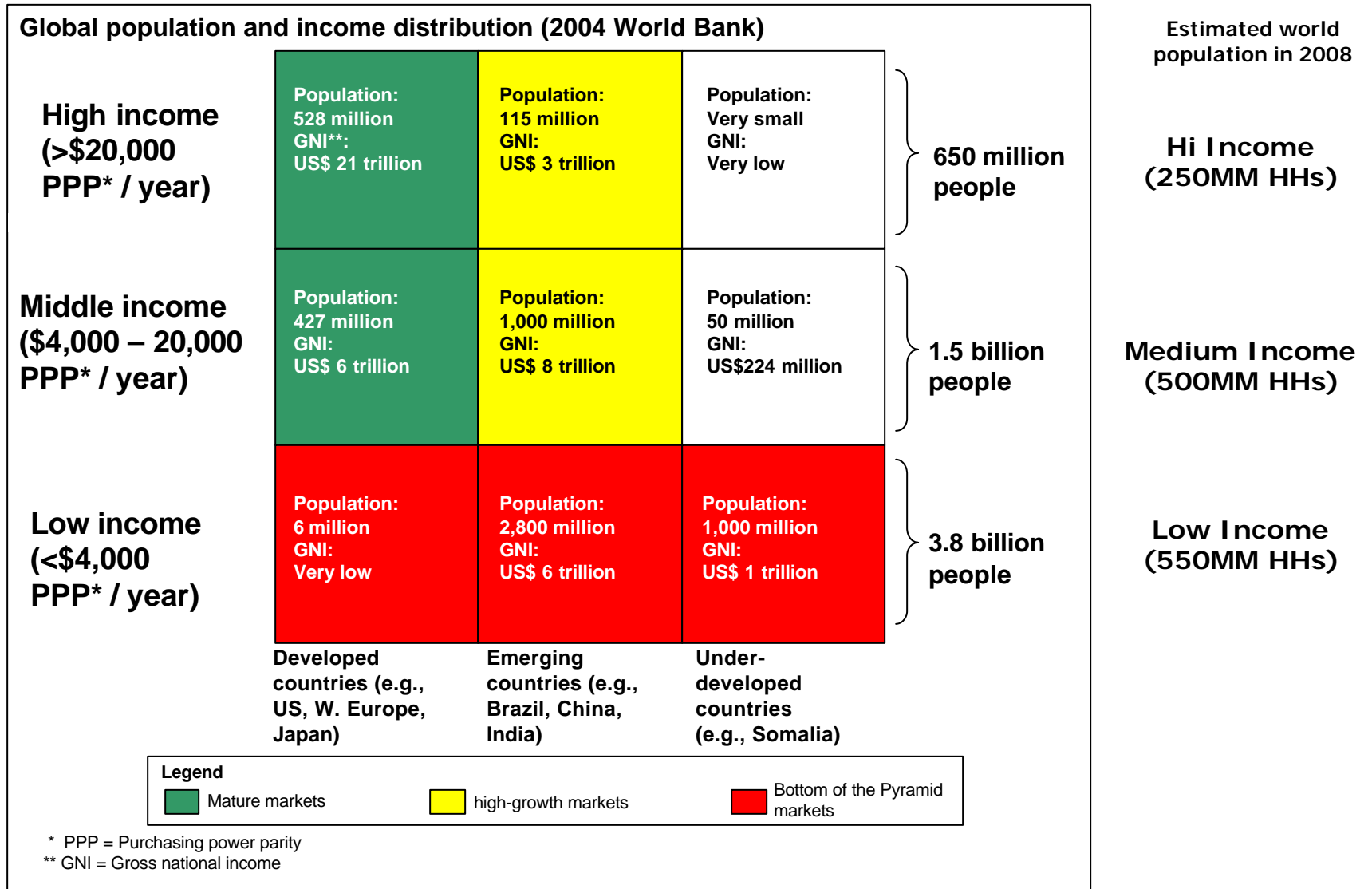


Learnings:

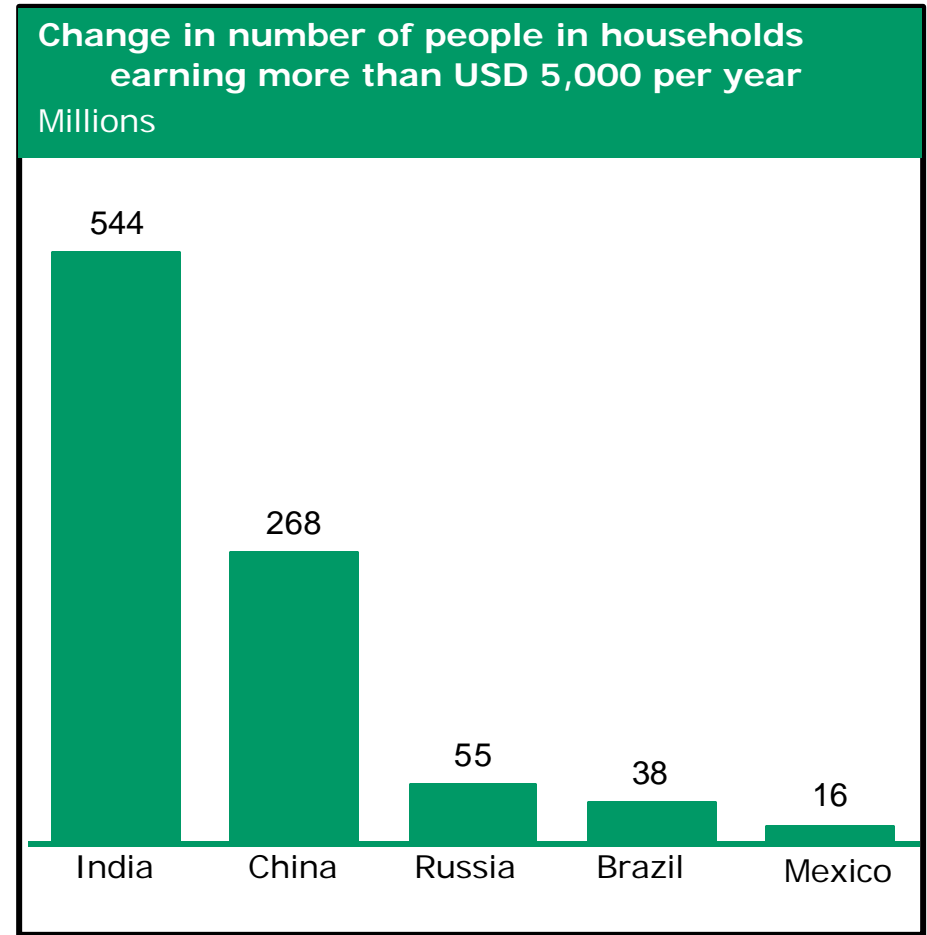
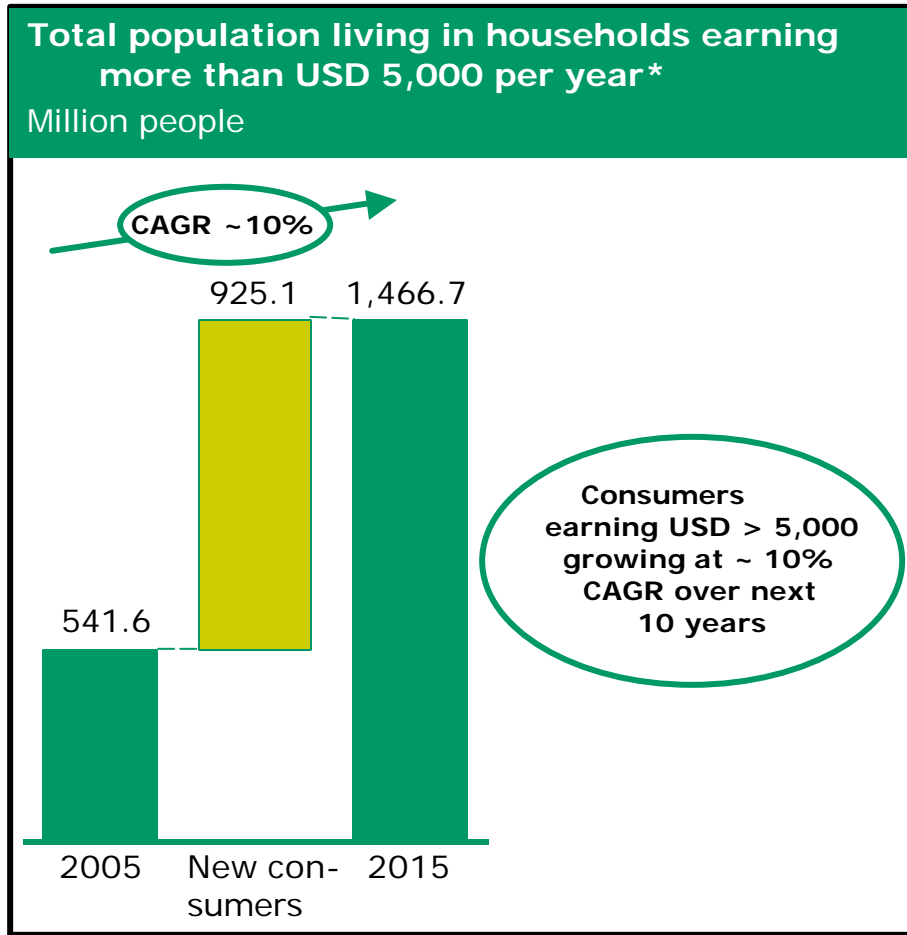
- Fastest growing price band for "growth markets" is \$0-\$499
- New business models are evolving:
 - Micro-financed payment plans
 - Subscription ISP plans
 - Pre-paid (per minute) plans
 - Subsidized plans (e.g. Government subsidized for education)

* PC TAM from June 2004 PCDB

The Opportunity and The Challenge



The Next Billion Consumers: India & China

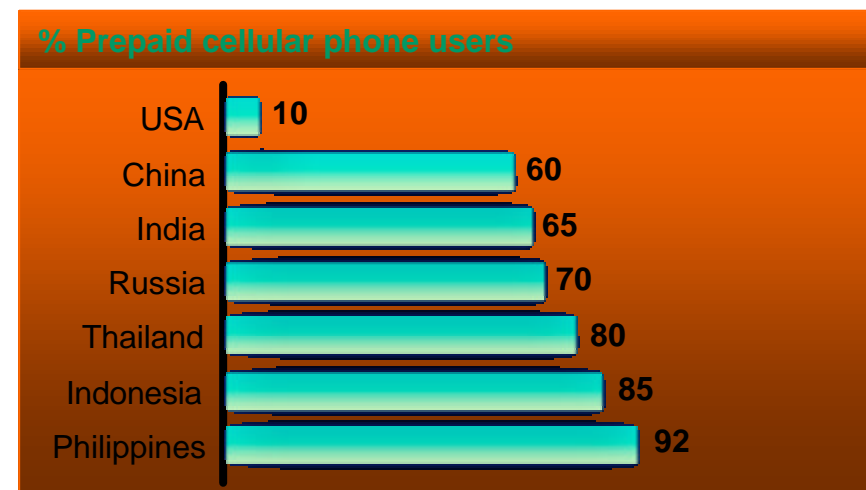
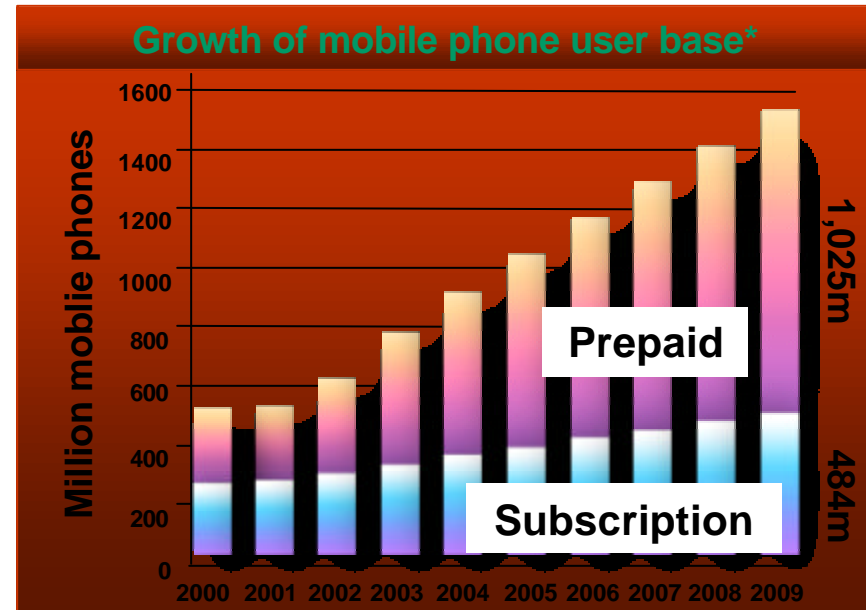


Economic Realities Drive Business Models In Emerging Markets

Earning and Consumption Patterns in Emerging Markets

- Income often unpredictable and irregular
- Resistance to high up-front payments
- Discomfort with fixed monthly payments
- Desire the “best” for their families

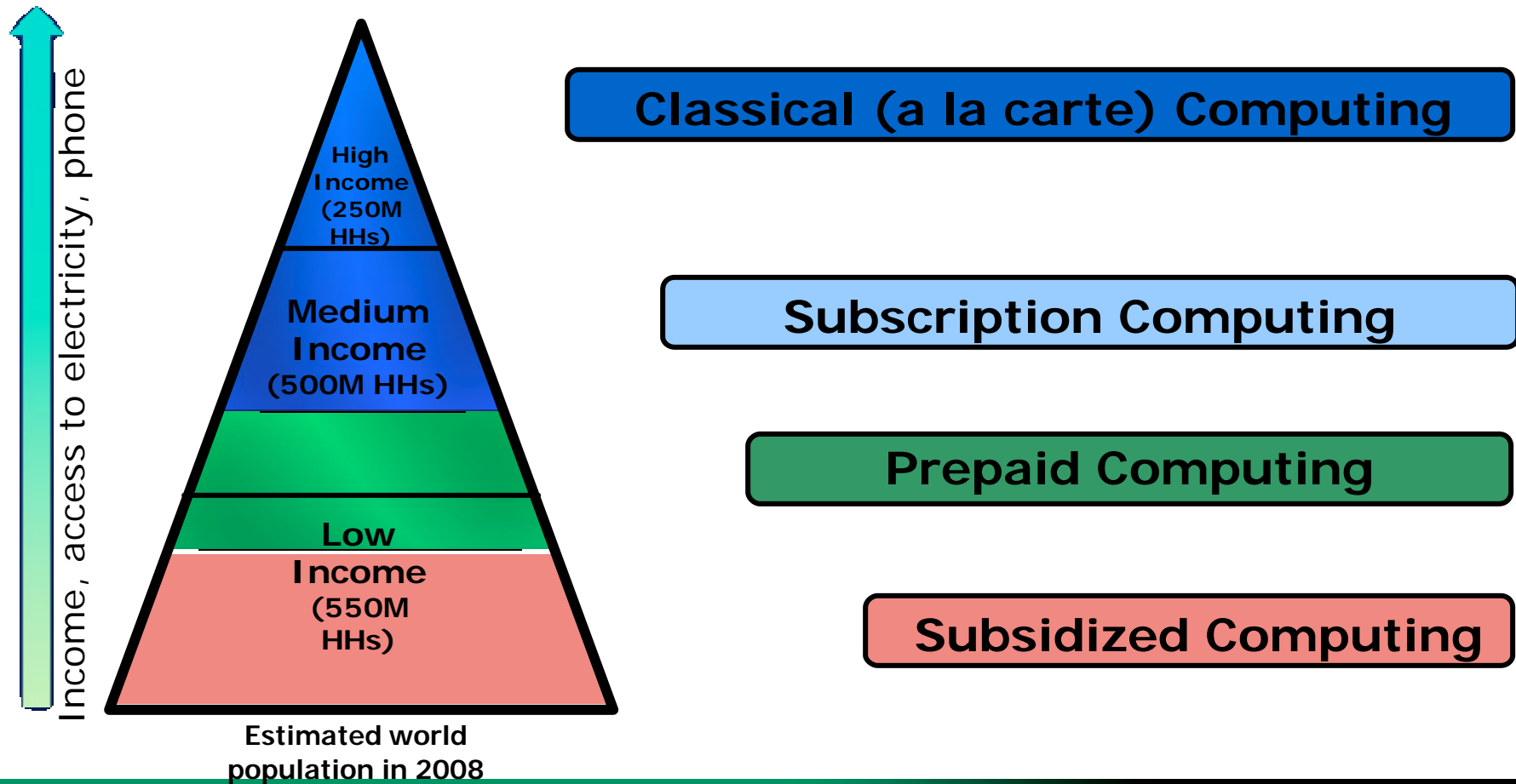
* Excluding W. Europe and North America



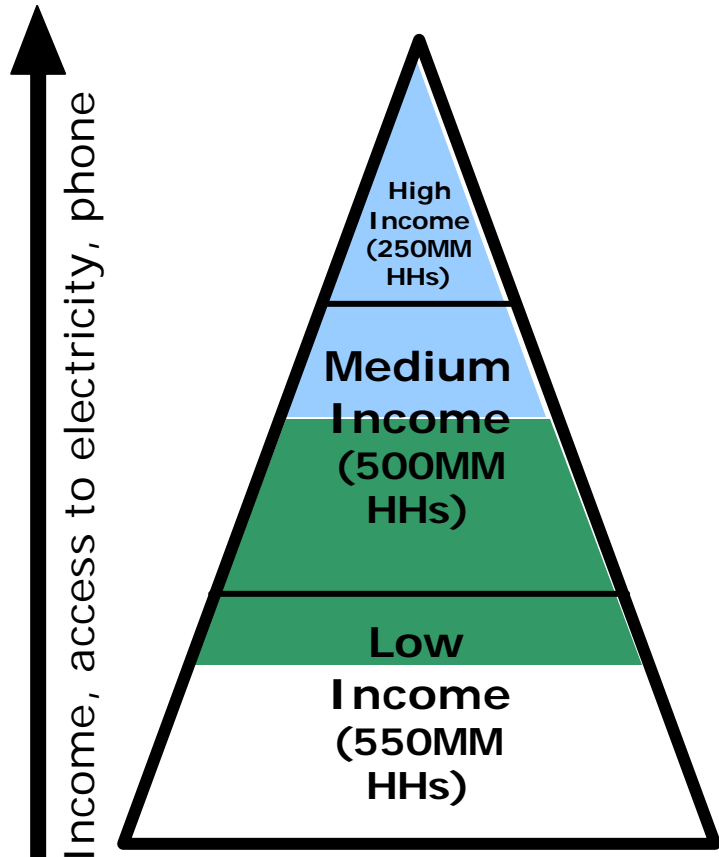
Clear and Growing Demand for Affordability

- Approach so far: lower cost & thus price
 - Only major approach to date
 - Using existing HW, SW, ODM, OEM, etc chains & designs
 - Puts most of the load on “HW chain”
- Alternative approaches
 - **Spread cost over time**
 - Microfinancing*
 - Payments tied to related service*
 - **Purchase as needed/afforded**
 - Prepayment*
 - **Subsidize purchase**
 - Subscription*
 - Subsidization*

Subscription, Prepaid and Subsidized Must Be Tailored To Customer Needs And Expectations



Subscription Computing Model



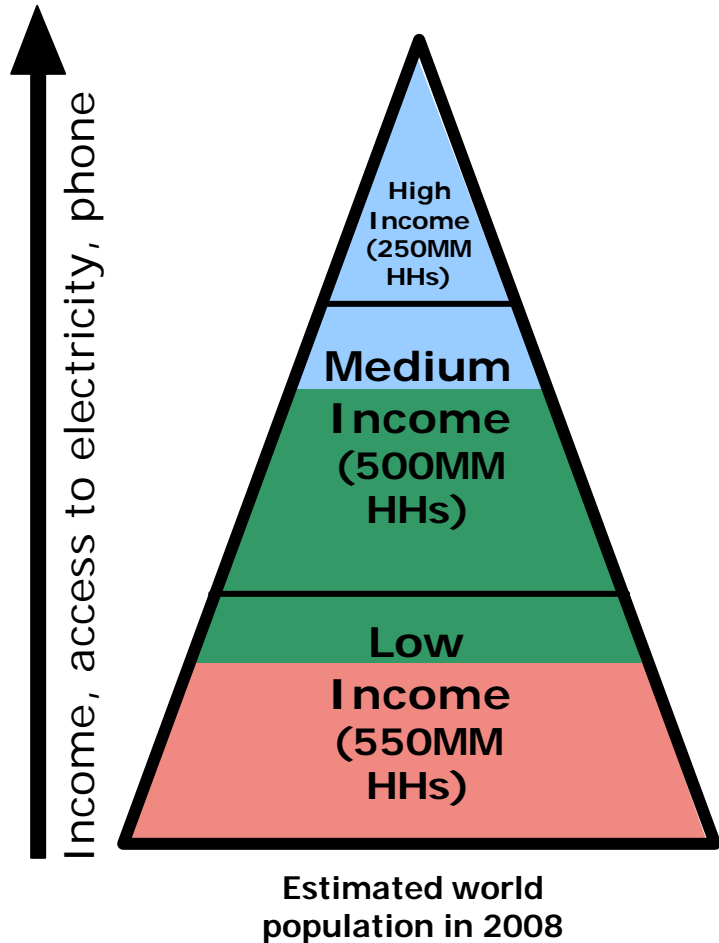
Estimated world population in 2008

Subscription Computing

Implementation partner: Fixed-line Telco

- PC sold through telco at subsidized up-front price (could be \$0)
- Fixed monthly payment for PC and broadband (~\$20 per month for 24 m.)
- Convenience of one provider/monthly bill

Prepaid Computing Model



Prepaid Computing

Implementation partner: OEM

- PC sold through traditional channels at reduced up-front price (40-60% full price)
- Flexible payments enabled through prepaid cards (~\$.40-\$1.00 per hour)
- Cards must be purchased until target hours are achieved (~800-1,200 hours)



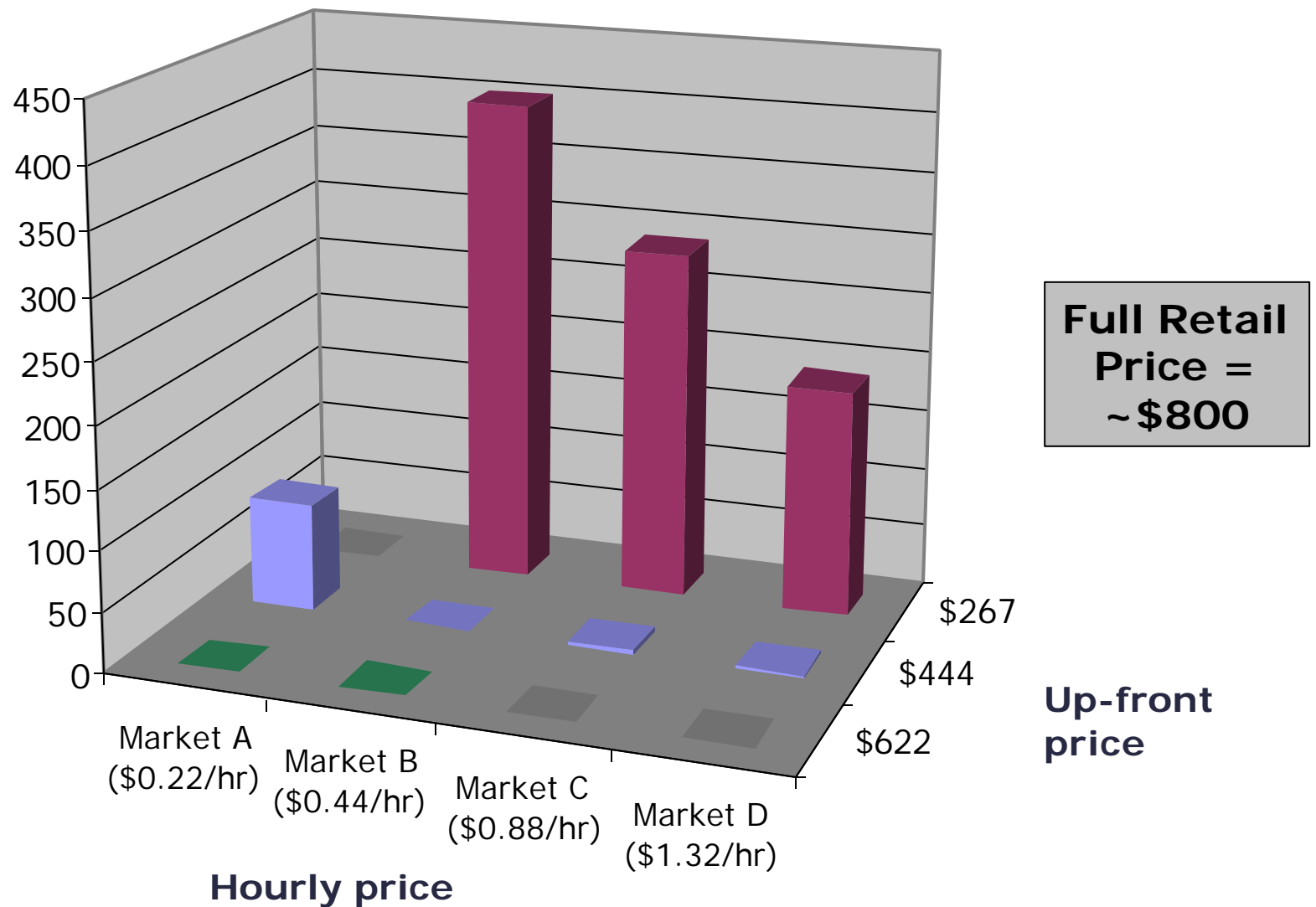
Microsoft: Prepaid Market Trial Structure in Brazil

Up-front payment by consumer				
		\$267	\$444	\$622
Cost/ hour of usage	\$0.22	N/A	3,400	2,120
	\$0.44	2,340	1,700	1,060
	\$0.88	1,170	850	N/A
	\$1.32	780	560	N/A

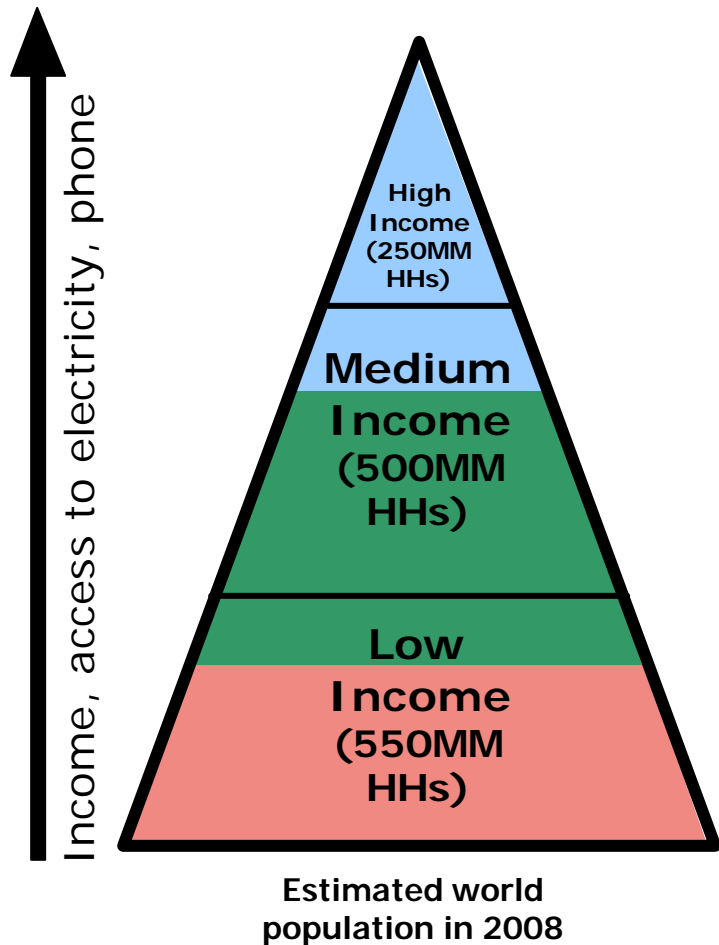
Full Retail
Price =
~\$800

Values in green cells represent hours of use until consumer no longer needs to purchase prepaid cards

Microsoft: Sales In Prepaid Market Trial in Brazil



Subsidized Computing Model: Providing the Greatest Affordability?



Subsidized Computing

Implementation partner: Service Provider

- Subsidized business model should provide the greatest degree of affordability
- Possible subsidizing services:
 - Advertising
 - Banking
 - Other
- Key questions not yet answered:
 - What will target markets accept?
 - How much subsidization can services provide?
 - How will physical products be tracked?

Have to Get Several Things Right

- **Challenge: Creating alternative business models to meet the billion customers core needs**
 - Affordability
 - Relevance
 - Usability
 - Availability
- **Affordability via sustainable business model**
- **Relevance: Core application valued by target market**
- **Usability: Product offering must match above seamlessly**
 - Large screens for entertainment
 - Secure control for pre-paid & subsidized
 - Ease of use for first time users
- **Availability: Industry Structure (mfg, distribution, support, financing, etc) must tie with above**
 - Non-standard vendor-customer relationships
 - Alternative payment/timing/valuation approaches
 - New partners in the supply/support chain
 - Financial institutions, Telcomms, Secure Distribution, etc*
 - Technology designed with the complete system in mind

Thank You

